

CITY OF CHARITON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, Iowa 50265

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City of Chariton

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------------------|-----------------|---------------------|
| (Before January, 2006) | | |
| John Braid | Mayor | December, 2005 |
| Brian Snuggs | Council Member | December, 2005 |
| Katherine Wallace | Council Member | December, 2005 |
| Joan Amos | Council Member | December, 2007 |
| June Spinler | Council Member | December, 2007 |
| Timothy Vick | Manager * | Indefinite |
| Ruth Ryun | Clerk/Treasurer | December, 2005 |
| Verle W. Norris | Attorney | December, 2005 |
| (After January, 2006) | | |
| John Braid | Mayor | December, 2009 |
| Joan Amos | Council Member | December, 2007 |
| June Spinler | Council Member | December, 2007 |
| Brian Snuggs | Council Member | December, 2009 |
| Roger Manser | Council Member | December, 2009 |
| Nels Christensen | Manager | Indefinite |
| Ruth Ryun | Clerk/Treasurer | December, 2007 |
| Verle W. Norris | Attorney | December, 2007 |

* - Resigned in August, 2005.

City of Chariton

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CERTIFIED PUBLIC ACCOUNTANTS
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(515) 277-3077

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Chariton's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Chariton as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2006 on our consideration of the City of Chariton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chariton's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

July 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Chariton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 Financial Highlights

- Receipts and transfers of the City's governmental activities decreased 33%, or approximately \$1,500,500, from fiscal 2005 to fiscal 2006. Property tax, local option sales taxes, and unrestricted interest on investment receipts increased approximately \$12,000, \$77,000 and \$144,000, respectively. Bond proceeds, donations and contractor settlement receipts decreased approximately \$471,000, \$870,000 and \$565,000, respectively.
- Disbursements of the City's governmental activities increased 10.8%, or approximately \$323,000, in fiscal 2006 from fiscal 2005. Debt service, capital projects and non-program disbursements increased approximately \$71,000, \$278,000 and \$203,000, respectively. Public works, culture and recreation and general government disbursements decreased approximately \$52,000, \$117,000 and \$48,000, respectively.
- The City's total cash basis net assets decreased 5.0%, or approximately \$313,000, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$312,000 and the assets of the business type activities decreased by approximately \$2,000.

Using this Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operation in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds, and non-major proprietary funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets present the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into three kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the airport, solid waste and the sanitary sewer system. These activities are financed primarily by user charges.
- The Component Unit includes the activities of the City's Municipal Waterworks. The City has included the Waterworks activities because its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The audited financial statements of the component unit are available at the Waterworks office.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at the year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Swimming Pool, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund, such as Cemetery Perpetual Care. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the sewer fund, considered to be a major fund of the City, and the airport and solid waste funds, non-major funds of the City. The Water Utility is contained within the City's financial statement as a discretely presented component unit. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$5.632 million to \$5.320 million. The analysis that follows focuses on the changes in cash balances for government activities.

| Cash Basis Net Assets of Governmental Activities (Expressed in Thousands) | | |
|--|---------------------|--------------|
| | Year ended June 30, | |
| | 2006 | 2005 |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service | \$ 245 | 344 |
| Operating grants, contributions and restricted interest | 442 | 1,374 |
| Capital grants, contributions and restricted interest | 40 | 566 |
| General receipts: | | |
| Property tax | 1,330 | 1,319 |
| Local option sales tax | 483 | 406 |
| Grants and contributions not restricted to specific purposes | 22 | - |
| Unrestricted interest on investments | 218 | 74 |
| Bond proceeds | - | 471 |
| Miscellaneous | 232 | 10 |
| Sale of assets | 1 | - |
| Transfers, net | 5 | (46) |
| TOTAL RECEIPTS AND TRANSFERS | 3,018 | 4,518 |
| Disbursements: | | |
| Public safety | 609 | 590 |
| Public works | 779 | 831 |
| Health and social services | 6 | 9 |
| Culture and recreation | 468 | 585 |
| Community and economic development | 17 | 43 |
| General government | 298 | 346 |
| Debt service | 581 | 511 |
| Capital projects | 278 | - |
| Non-program | 294 | 91 |
| TOTAL DISBURSEMENTS | 3,330 | 3,006 |
| Increase (decrease) in cash basis net assets | (312) | 1,512 |
| Cash basis net assets beginning of year | 5,632 | 4,120 |
| Cash basis net assets end of year | \$5,320 | 5,632 |

The City's total receipts and transfers for governmental activities decreased by 33.2%, or approximately \$1,500,000. The cost of all programs and services increased by approximately \$324,000, or 10.8%, with no new programs added this year. The significant decrease in receipts was primarily due to bond proceeds, donations, and settlement funds related to the pool which were received in fiscal 2005, with nothing similar in fiscal 2006.

The City increased the property tax rate from \$16.2327 in fiscal 2005 to \$16.24382 in fiscal 2006. This is the first raise in the property tax rate in six years. The City's taxable valuation has increased by approximately 7% in fiscal 2006 compared to fiscal 2005. Based on the increases in the total assessed valuations, property tax receipts are budgeted to increase by approximately \$83,698 next year.

The cost of all governmental activities this year was \$3.330 million. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$2.603 million because some of the cost was paid by those directly benefited from the programs (\$245,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$482,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2006 from approximately \$2.283 million to approximately \$.727 million, principally due to donations received for the library and cemetery, and a settlement received in relation to the pool construction project which was received in fiscal 2005, with nothing similar in fiscal 2006. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,603,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

| Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands) | | |
|--|---------------------|------------|
| | Year ended June 30, | |
| | 2006 | 2005 |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service | \$462 | 441 |
| Capital grants, contributions and restricted interest | 14 | 12 |
| General receipts: | | |
| Unrestricted interest on investments | 21 | 5 |
| Miscellaneous | 15 | 17 |
| Transfers (Net) | (5) | 46 |
| TOTAL RECEIPTS AND TRANSFERS | 507 | 521 |
| Disbursements: | | |
| Airport | 90 | 100 |
| Sewer | 403 | 300 |
| Other (Solid Waste) | 16 | 14 |
| TOTAL DISBURSEMENTS | 509 | 414 |
| Increase (decrease) in cash balance | (2) | 107 |
| Cash basis net assets beginning of year | 681 | 574 |
| Cash basis net assets end of year | \$679 | 681 |

Total business type activities receipts and transfers for the fiscal year were \$507,000 compared to \$521,000 last year. The significant decrease was due primarily to the amount of transfers to the business type activities funds. The cash balance decreased by approximately \$2,000 from the prior year because the Solid Waste Fund fees charged exceeded the operating costs of this fund. Total disbursements for the fiscal year increased by 23% to a total of \$509,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Chariton completed the year, its governmental funds reported a combined fund balance of \$5,344,928, a decrease of approximately \$317,000 below last years total of \$5,661,795. The following are the major reasons for the change in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$218,027 from the prior year to \$1,313,365. The decrease brought the balance to typical amounts after receiving approximately \$870,000 in donations for the cemetery and library last year.
- The Road Use Tax Fund cash balance increased by \$27,597 to \$24,578 during the fiscal year. While the City did not receive any more funding this fiscal year, costs were held to a minimum in order to return this fund to a sound financial position.
- The Swimming Pool Fund cash balance increased by \$28,920 to \$2,238,224. The increase is due primarily to an increase in local option sales tax monies. The sales tax monies deposited to this fund are restricted by referendum for Swimming Pool construction and operation. The Swimming Pool currently has \$1,315,000 in Revenue Bond debt.
- The Debt Service Fund cash balance decreased by \$77,447 to \$296,798 during the fiscal year. Bond principal and interest payments increased by approximately \$71,000 in fiscal year 2006.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased by \$39,466 to \$582,590, due primarily to construction projects during the year. Future capital projects scheduled for fiscal 2007, including sewer plant engineering, updating lift-stations and equipment updates will decrease this balance.

BUDGETARY HIGHLIGHTS

This past year the City of Chariton amended the budget on May 30, 2006. The amendment approved an increase in operating disbursements of \$330,000 for increasing fuel costs, debt service, and a water construction project. The City financed these increased costs through existing cash balances and federal loans.

DEBT ADMINISTRATION

As of June 30, 2006, the City had approximately \$2,640,000 in outstanding bonds and other long-term debt, compared to approximately \$3,106,000 last year, as shown below.

| Outstanding Debt at Year End (Expressed in Thousands) | | |
|--|----------------|--------------|
| | June 30, | |
| | 2006 | 2005 |
| General obligation bonds and notes | \$1,260 | 1,580 |
| Revenue bonds | 1,315 | 1,425 |
| FMHA revenue notes | 34 | 43 |
| Lease purchase agreement | 31 | 58 |
| TOTAL | \$2,640 | 3,106 |

Debt decreased because no new debt was issued during the fiscal year, and the scheduled debt payments were made.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,260,000 is significantly below its constitutional debt limit of \$6,169,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Chariton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities.

The City's taxable value has slowly but steadily increased from 2001-2004. However, in fiscal 2005 and 2006 the taxable value has declined. Part of the cause for the decline is the result of the residential rollback. In 2007, the taxable value increased again primarily due to new construction in the community.

The City has had to budget during an uncertain period within the state. State funding cuts have presented future funding issues within the City's General Fund. In 2006, the departments once again were asked to review their budgets; however, increased fuel and energy prices and material costs are exceeding the budgeted amounts due to worldwide price hikes. The needs for infrastructure improvements were considered during the fiscal year. The tax roll back is affecting most cities in the State and Chariton is no exception.

The City's expected receipts and other financing sources for fiscal 2007 is \$7,196,426, as opposed to fiscal 2006 budgeted receipts of \$4,786,359.

The City's expected disbursements and transfers out for fiscal 2007 is \$8,818,423, as opposed to fiscal 2006 budgeted disbursements of \$2,654,021.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$1,622,000 to \$7,654,287 by the close of fiscal 2007.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ruth A. Ryun, City Clerk, 115 South Main Street, Chariton, Iowa 50049.

Basic Financial Statements

City of Chariton

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

| Functions / Programs | Program Receipts | | | |
|---|------------------|---------------------|---|---|
| | Disbursements | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 608,376 | 19,408 | 35,026 | 24,000 |
| Public works | 778,957 | 47,177 | 382,877 | 2,500 |
| Health and social services | 6,030 | - | - | - |
| Culture and recreation | 467,507 | 126,578 | 18,689 | 6,000 |
| Community and economic development | 17,125 | - | 5,578 | 6,931 |
| General government | 297,782 | 52,057 | - | - |
| Debt service | 581,082 | - | - | - |
| Capital projects | 278,495 | - | - | - |
| Non-program | 293,984 | - | - | - |
| Total governmental activities | 3,329,338 | 245,220 | 442,170 | 39,431 |
| Business type activities: | | | | |
| Airport | 90,218 | 47,246 | - | 14,179 |
| Sewer | 402,642 | 367,888 | - | - |
| Solid waste | 15,814 | 47,054 | - | - |
| Total business type activities | 508,674 | 462,188 | - | 14,179 |
| Total | \$ 3,838,012 | 707,408 | 442,170 | 53,610 |
| Component unit: | | | | |
| Water utility | \$ 1,278,447 | 1,121,563 | - | - |
| General Receipts: | | | | |
| Property tax levied for: | | | | |
| General purposes | | | | |
| Tax increment financing | | | | |
| Debt service | | | | |
| Local option sales tax | | | | |
| Grants and contributions not restricted to specific purpose | | | | |
| Unrestricted interest on investments | | | | |
| Miscellaneous | | | | |
| Sale of assets | | | | |
| Transfers | | | | |
| Total general receipts and transfers | | | | |
| Change in cash basis net assets | | | | |
| Cash basis net assets beginning of year | | | | |
| Cash basis net assets end of year | | | | |
| Cash Basis Net Assets | | | | |
| Restricted: | | | | |
| Streets | | | | |
| Urban renewal purposes | | | | |
| Debt service | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net assets | | | | |

See notes to financial statements.

Exhibit A

| Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | | |
|--|-----------------------------|-------------|----------------|
| Primary Government | | | Component Unit |
| Governmental Activities | Business Type Activities | Total | Water Utility |
| (529,942) | - | (529,942) | - |
| (346,403) | - | (346,403) | - |
| (6,030) | - | (6,030) | - |
| (316,240) | - | (316,240) | - |
| (4,616) | - | (4,616) | - |
| (245,725) | - | (245,725) | - |
| (581,082) | - | (581,082) | - |
| (278,495) | - | (278,495) | - |
| (293,984) | - | (293,984) | - |
| (2,602,517) | - | (2,602,517) | - |
| - | (28,793) | (28,793) | - |
| - | (34,754) | (34,754) | - |
| - | 31,240 | 31,240 | - |
| - | (32,307) | (32,307) | - |
| (2,602,517) | (32,307) | (2,634,824) | - |
| - | - | - | (156,884) |
| 1,036,202 | - | 1,036,202 | - |
| 84,970 | - | 84,970 | - |
| 209,185 | - | 209,185 | - |
| 483,266 | - | 483,266 | - |
| 21,523 | - | 21,523 | - |
| 218,306 | 20,736 | 239,042 | 39,964 |
| 231,646 | 14,715 | 246,361 | 16,405 |
| 940 | - | 940 | - |
| 4,875 | (4,875) | - | - |
| 2,290,913 | 30,576 | 2,321,489 | 56,369 |
| (311,604) | (1,731) | (313,335) | (100,515) |
| 5,632,031 | 680,773 | 6,312,804 | 800,545 |
| \$ 5,320,427 | 679,042 | 5,999,469 | 700,030 |
| \$ 24,578 | - | 24,578 | - |
| 117,980 | - | 117,980 | - |
| 511,050 | 19,598 | 530,648 | 324,598 |
| 3,377,655 | - | 3,377,655 | - |
| 1,289,164 | 659,444 | 1,948,608 | 375,432 |
| \$ 5,320,427 | 679,042 | 5,999,469 | 700,030 |

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2006

| | Special Revenue | | | | | Total |
|---|-----------------|--------------|------------------|--------------|-----------|-----------|
| | General | Road Use Tax | Swimming Pool | Debt Service | Nonmajor | |
| Receipts: | | | | | | |
| Property tax | \$ 753,773 | - | - | 209,185 | 282,430 | 1,245,388 |
| Tax increment financing collections | - | - | - | - | 84,970 | 84,970 |
| Other city tax | 21,802 | - | 483,266 | - | - | 505,068 |
| Licenses and permits | 14,346 | - | - | - | - | 14,346 |
| Use of money and property | 108,946 | - | 56,951 | - | 65,993 | 231,890 |
| Intergovernmental | 63,159 | 382,877 | - | - | 4,365 | 450,401 |
| Charges for service | 116,669 | - | - | - | - | 116,669 |
| Special assessments | - | - | - | - | 15,771 | 15,771 |
| Miscellaneous | 190,361 | - | - | - | 157,055 | 347,416 |
| Total receipts | 1,269,056 | 382,877 | 540,217 | 209,185 | 610,584 | 3,011,919 |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public safety | 503,695 | - | - | - | 104,914 | 608,609 |
| Public works | 326,590 | 355,280 | - | - | 97,749 | 779,619 |
| Health and social services | 6,030 | - | - | - | - | 6,030 |
| Culture and recreation | 408,242 | - | - | - | 59,328 | 467,570 |
| Community and economic development | 17,022 | - | - | - | 103 | 17,125 |
| General government | 259,126 | - | - | - | 42,961 | 302,087 |
| Debt service | - | - | 191,802 | 389,280 | - | 581,082 |
| Capital projects | - | - | 278,495 | - | - | 278,495 |
| Non-program | - | - | - | - | 293,984 | 293,984 |
| Total disbursements | 1,520,705 | 355,280 | 470,297 | 389,280 | 599,039 | 3,334,601 |
| Excess (deficiency) of receipts over (under) disbursements | (251,649) | 27,597 | 69,920 | (180,095) | 11,545 | (322,682) |
| Other financing sources (uses): | | | | | | |
| Sale of capital assets | 940 | - | - | - | - | 940 |
| Operating transfers in | 65,875 | - | - | 102,648 | 13,193 | 181,716 |
| Operating transfers out | (33,193) | - | (41,000) | - | (102,648) | (176,841) |
| Total other financing sources (uses) | 33,622 | - | (41,000) | 102,648 | (89,455) | 5,815 |
| Net change in cash balances | (218,027) | 27,597 | 28,920 | (77,447) | (77,910) | (316,867) |
| Cash balances beginning of year | 1,531,392 | (3,019) | 2,209,304 | 374,245 | 1,549,873 | 5,661,795 |
| Cash balances end of year | \$ 1,313,365 | 24,578 | 2,238,224 | 296,798 | 1,471,963 | 5,344,928 |
| Cash Basis Fund Balances | | | | | | |
| Reserved: | | | | | | |
| Debt service | \$ - | - | 214,252 | 296,798 | - | 511,050 |
| Unreserved: | | | | | | |
| General fund | 1,313,365 | - | - | - | - | 1,313,365 |
| Special revenue funds | - | 24,578 | 2,023,972 | - | 1,285,742 | 3,334,292 |
| Permanent fund | - | - | - | - | 186,221 | 186,221 |
| Total cash basis fund balances | \$ 1,313,365 | 24,578 | 2,238,224 | 296,798 | 1,471,963 | 5,344,928 |

See notes to financial statements.

City of Chariton

Exhibit C

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2006

| | |
|---|---------------------|
| Total governmental funds cash balances (page 18) | \$ 5,344,928 |
|---|---------------------|

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of
the central fuel facility to individual funds. The assets of the Internal Service
Fund are included in governmental activities in the Statement of Net Assets.

| |
|-----------------|
| <u>(24,501)</u> |
|-----------------|

| | |
|---|----------------------------|
| Cash basis net assets of governmental activities (page 17) | <u>\$ 5,320,427</u> |
|---|----------------------------|

| | |
|--|---------------------|
| Net change in cash balances (page 18) | \$ (316,867) |
|--|---------------------|

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of
the central fuel facility to individual funds. The change on net assets of the
Internal Service Fund is reported with governmental activities.

| |
|--------------|
| <u>5,263</u> |
|--------------|

| | |
|--|----------------------------|
| Change in cash balance of governmental activities (page 17) | <u>\$ (311,604)</u> |
|--|----------------------------|

See notes to financial statements.

City of Chariton

Exhibit D

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2006

| | Enterprise Funds | | | Internal Service Fund |
|---|-------------------|---------------|-----------------|--------------------------|
| | Sewer | Nonmajor | Total | Central Fuel |
| Operating receipts: | | | | |
| Use of money and property | \$ - | 23,770 | 23,770 | - |
| Charges for service | 367,888 | 70,530 | 438,418 | 226,862 |
| Miscellaneous | - | - | - | 2,454 |
| Total operating receipts | <u>367,888</u> | <u>94,300</u> | <u>462,188</u> | <u>229,316</u> |
| Operating disbursements: | | | | |
| Governmental activities: | | | | |
| Public safety | - | - | - | 10,823 |
| Public works | - | - | - | 29,278 |
| Culture and recreation | - | - | - | 2,793 |
| General government | - | - | - | 189,842 |
| Business type activities | 402,750 | 94,836 | 497,586 | 4,783 |
| Total operating disbursements | <u>402,750</u> | <u>94,836</u> | <u>497,586</u> | <u>237,519</u> |
| Excess (deficiency) of receipts over (under) operating disbursements | <u>(34,862)</u> | <u>(536)</u> | <u>(35,398)</u> | <u>(8,203)</u> |
| Non-operating receipts (disbursements): | | | | |
| Intergovernmental | - | 14,179 | 14,179 | - |
| Interest on investments | 19,188 | 1,548 | 20,736 | - |
| Miscellaneous | 1,083 | 13,632 | 14,715 | 13,574 |
| Debt service | - | (11,196) | (11,196) | - |
| Total non-operating receipts (disbursements) | <u>20,271</u> | <u>18,163</u> | <u>38,434</u> | <u>13,574</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>(14,591)</u> | <u>17,627</u> | <u>3,036</u> | <u>5,371</u> |
| Operating transfers: | | | | |
| In | - | 20,000 | 20,000 | - |
| Out | (24,875) | - | (24,875) | - |
| Total operating transfers | <u>(24,875)</u> | <u>20,000</u> | <u>(4,875)</u> | <u>-</u> |
| Net change in cash balances | (39,466) | 37,627 | (1,839) | 5,371 |
| Cash balances beginning of year | <u>622,056</u> | <u>59,550</u> | <u>681,606</u> | <u>(30,597)</u> |
| Cash balances end of year | <u>\$ 582,590</u> | <u>97,177</u> | <u>679,767</u> | <u>(25,226)</u> |
| Cash Basis Fund Balances | | | | |
| Reserved for debt service | \$ - | 19,598 | 19,598 | - |
| Unreserved | <u>582,590</u> | <u>77,579</u> | <u>660,169</u> | <u>(25,226)</u> |
| Total cash basis fund balances | <u>\$ 582,590</u> | <u>97,177</u> | <u>679,767</u> | <u>(25,226)</u> |

See notes to financial statements.

City of Chariton

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2006

Total enterprise funds cash balances (page 20) \$ 679,767

*Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the
the central fuel facility to individual funds. The assets of the Internal Service
Fund are included in business type activities in the Statement of Net Assets.

(725)

Cash basis net assets of business type activities (page 17) \$ 679,042

Net change in cash balances (page 20) \$ (1,839)

*Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of
the central fuel facility to individual funds. The change in net assets of the
Internal Service Fund is reported with business type activities.

108

Change in cash basis of business type activities (page 17) \$ (1,731)

See notes to financial statements.

City of Chariton

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Chariton is a political subdivision of the State of Iowa located in Lucas County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Council-Manager form of government with the Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Chariton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Chariton (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover.

Discretely Presented Component Unit

The Chariton Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the boards of the Area 15 Regional Planning Commission, Lucas County Assessor's Conference Board, South Central Iowa Solid Waste Commission and the Chariton Area Development Corporation.

B. Basis of Presentation

Government-wide Financial Statements- The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Swimming Pool Fund is used to account for the local option sales tax and the related costs and debt associated with the Pool.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long term debt.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Chariton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U. S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the City had the following investments:

| Type | Carrying Amount | Fair Value |
|-----------------|--------------------|---------------|
| Corporate stock | \$2,160 | \$9,395 |

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Corporate stock is not an allowable investment according to the Code of Iowa.

In addition, the City has Deferred Compensation Plan investments with a fair value of \$755,421 at June 30, 2006 that is not subject to risk categorization.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, and revenue bonds are as follows:

| Year Ended June 30, | General Obligation Bonds and Notes | | Local Option Sales and Services Tax Revenue Bonds | | Total | |
|---------------------|------------------------------------|-------------------|---|-------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2007 | \$ 330,000 | \$ 53,829 | \$ 115,000 | \$ 75,588 | \$ 445,000 | \$ 129,417 |
| 2008 | 345,000 | 40,324 | 125,000 | 69,320 | 470,000 | 109,644 |
| 2009 | 235,000 | 25,665 | 130,000 | 62,445 | 365,000 | 88,110 |
| 2010 | 240,000 | 15,455 | 135,000 | 55,230 | 375,000 | 70,685 |
| 2011 | 95,000 | 5,320 | 145,000 | 47,603 | 240,000 | 52,923 |
| 2012 | 5,000 | 752 | 155,000 | 39,265 | 160,000 | 40,017 |
| 2013 | 5,000 | 500 | 160,000 | 30,275 | 165,000 | 30,775 |
| 2014 | 5,000 | 250 | 170,000 | 20,915 | 175,000 | 21,165 |
| 2015 | - | - | 180,000 | 10,800 | 180,000 | 10,800 |
| Total | <u>\$ 1,260,000</u> | <u>\$ 142,095</u> | <u>\$ 1,315,000</u> | <u>\$ 411,441</u> | <u>\$ 2,575,000</u> | <u>\$ 553,536</u> |

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the costs of the construction and equipping a municipal swimming pool. The bonds are payable solely from the proceeds of the local option sales tax revenues received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds are not a general obligation of the City. The debt, however, is subject to the constitutional debt limitation of the City.

The resolution providing for the issuance of the local option sales and services revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the City and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly cash transfers shall be made to the swimming pool revenue sinking account for the purpose of making the bond principal and interest payments when due.
- (c) \$198,000 shall be paid into a Swimming Pool Reserve Fund from the loan proceeds.

(4) Farmers Home Administration Revenue Notes

The City is indebted to the Farmers Home Administration for airport revenue notes. At June 30, 2006 the revenue notes had an outstanding balance of \$34,262. Annual debt service requirements to maturity for these revenue notes are as follows:

| Year Ended June 30, | Principal | Interest | Total Payment |
|---------------------|------------------|-----------------|------------------|
| 2007 | \$ 9,396 | \$ 1,800 | \$ 11,196 |
| 2008 | 9,975 | 1,221 | 11,196 |
| 2009 | 10,591 | 605 | 11,196 |
| 2010 | 4,300 | 62 | 4,362 |
| Total | <u>\$ 34,262</u> | <u>\$ 3,688</u> | <u>\$ 37,950</u> |

The resolution providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity.
- (b) The City shall make monthly payments of \$933, including interest at 6% per year, to the Farmers Home Administration from January, 1990 through December, 2009, inclusive.
- (c) Monthly transfers in the amount of \$94 shall be deposited in a "Reserve Fund", until a balance of \$11,196 has been accumulated.

(5) Lease Purchase Obligations

The City is purchasing a Street Sweeper under a capital lease contract. Future payments in relation to this lease are as follows:

| Year Ended June 30, | Principal | Interest | Total Payment |
|---------------------|------------------|---------------|------------------|
| 2007 | \$ 30,865 | \$ 562 | \$ 31,427 |
| Total | <u>\$ 30,865</u> | <u>\$ 562</u> | <u>\$ 31,427</u> |

(6) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$59,576, \$59,661 and \$56,095, respectively, equal to the required contributions for each year.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is \$96,146.

This liability has been computed based on rates of pay in effect at June 30, 2006.

(8) Deferred Compensation Plan

The City offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows City employees to defer a portion of their current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are, until made available to the participant or other beneficiary, solely the property and rights of the City; without being restricted to the provision of benefits under the plan, subject only to the claims of the City's general creditors.

The City is responsible for due care in managing the investments and the participant or beneficiary assumes the risk of loss from decreases in the value of plan assets. At June 30, 2006 plan assets consisted entirely of annuities purchased from private insurance companies.

The City records the plan assets and related activity in a special revenue fund. Investments held by the deferred compensation plan administrator are reported at fair value.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

| Transfer to | Transfer from | Amount |
|-------------------------|-----------------------------|-------------------|
| General | Enterprise: | |
| | Sewer | \$ 24,875 |
| | Special Revenue: | |
| | Swimming Pool | 41,000 |
| | | <u>65,875</u> |
| Debt Service: | Special Revenue: | |
| General Obligation Bond | Urban Renewal Tax Increment | 95,425 |
| | Donations | 7,223 |
| | | <u>102,648</u> |
| Special Revenue: | | |
| CDBG Housing | General | 13,193 |
| Enterprise: | | |
| Airport | General | <u>20,000</u> |
| Total | | <u>\$ 201,716</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(10) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,361 during the year ended June 30, 2006.

(11) Community Economic Betterment Account Grant

A local business was awarded a Community Economic Betterment Account Grant of \$225,000, with the money for these grants passed through the City. Under the grant agreement, the business must meet certain employment goals within a specified period to have \$112,500 of the loans forgiven. The balance, or \$112,500, is to be amortized and paid back over a seven year period.

In the event of default, the City's liability is limited to the amount it can collect from the business. The City also has the responsibility to enforce the security interests against the business in the event of default.

During the fiscal year, the local business ceased operation in the City, and the business paid back the State of Iowa the forgivable loan and the balance of the loan. As a result, as of June 30, 2006, it does not appear the City has any liability or responsibility in relation to this grant.

(12) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2006, disbursements in the public works function exceeded the amounts budgeted.

(13) Industrial Development Revenue Bonds

The City has issued a total of \$4,992,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(14) Risk Management

The City of Chariton is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(15) Deficit Fund Balance

At June 30, 2006, the City had deficit balances as follows:

| | |
|---|------------|
| Enterprise Funds - Airport | \$ 136,036 |
| Internal Service Fund - Central Fuel Facility | 25,226 |
| Special Revenue Fund - CEBA | 915 |
| Special Revenue Fund - Donations | 3,067 |
| Special Revenue Fund – Employee Benefits | 3,024 |

The Enterprise Funds - Airport deficit should be eventually eliminated by rents received, profit from fuel sold, and transfers from the General Fund.

The Internal Service Fund - Central Fuel Facility deficit should be eventually eliminated from the profit received from the fuel sold.

The Special Revenue Fund - CEBA will be eliminated through a transfer from the General Fund.

The Special Revenue Fund - Donations deficit should be eliminated through donations received.

The Special Revenue Fund – Employee Benefits deficit should be eliminated through decreased spending and through an increase in property taxes.

(16) Contingency

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(17) Commitments/Subsequent Events

The City should receive approximately \$35,000 in fiscal year 2007 for closing two railroad crossings in town. In addition, the City should receive \$60,000 over the next three years as a result of a settlement with a contractor.

The City has received notification that they have been awarded grants from the State of Iowa Community Development Block Grant program, the Federal Aviation Administration, and the Iowa Department of Transportation for housing, airport improvements and bridge replacement. The total amount of these grant awards is over \$1.1 million. The City currently is, or will be, incurring costs in relation to these projects. Reimbursements from the grantors will be requested as work on the project progresses. In addition, the City plans to repair/renovate the aquatic center at an approximate cost of \$1.5 million. It is expected that the work on this project will begin in the fall of 2006.

Required Supplementary Information

City of Charlton

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds - Primary Government
Required Supplementary Information

Year ended June 30, 2006

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted | Total | Budgeted Amounts Original | Final | Final to Total Variance |
|---|------------------------------|-----------------------------|--|------------------|------------------------------|------------------|----------------------------|
| Receipts: | | | | | | | |
| Property tax | \$ 1,245,388 | - | - | 1,245,388 | 1,186,976 | 1,186,976 | 58,412 |
| Tax increment financing collections | 84,970 | - | - | 84,970 | 60,000 | 60,000 | 24,970 |
| Other city tax | 505,068 | - | - | 505,068 | 507,703 | 507,703 | (2,635) |
| Licenses and permits | 14,346 | - | - | 14,346 | 30,245 | 30,245 | (15,899) |
| Use of money and property | 231,890 | 44,506 | - | 276,396 | 98,100 | 98,100 | 178,296 |
| Intergovernmental | 450,401 | 14,179 | - | 464,580 | 550,250 | 550,250 | (85,670) |
| Charge for service | 116,669 | 665,280 | 226,862 | 555,087 | 653,140 | 653,140 | (98,053) |
| Special assessments | 15,771 | - | - | 15,771 | 22,121 | 22,121 | (6,350) |
| Miscellaneous | 347,416 | 30,743 | 16,028 | 362,131 | 294,750 | 294,750 | 67,381 |
| Total receipts | 3,011,919 | 754,708 | 242,890 | 3,523,737 | 3,403,285 | 3,403,285 | 120,452 |
| Disbursements: | | | | | | | |
| Public safety | 608,609 | 10,823 | 10,823 | 608,609 | 493,593 | 623,593 | 14,984 |
| Public works | 779,619 | 29,278 | 29,278 | 779,619 | 611,590 | 611,590 | (168,029) |
| Health and social services | 6,030 | - | - | 6,030 | 7,400 | 7,400 | 1,370 |
| Culture and recreation | 467,570 | 2,793 | 2,793 | 467,570 | 490,014 | 490,014 | 22,444 |
| Community and economic development | 17,125 | - | - | 17,125 | 123,493 | 123,493 | 106,368 |
| General government | 302,087 | 189,842 | 189,842 | 302,087 | 337,915 | 337,915 | 35,828 |
| Debt service | 581,082 | - | - | 581,082 | 611,120 | 736,120 | 155,038 |
| Capital projects | 278,495 | - | - | 278,495 | 300,000 | 300,000 | 21,505 |
| Business type activities | - | 513,565 | 4,783 | 508,782 | 602,446 | 602,446 | 93,664 |
| Non-program | 293,984 | - | - | 293,984 | - | - | (293,984) |
| Total disbursements | 3,334,601 | 746,301 | 237,519 | 3,843,383 | 3,577,571 | 3,832,571 | (10,812) |
| Excess (deficiency) of receipts over (under) disbursements | (322,682) | 8,407 | 5,371 | (319,646) | (174,286) | (429,286) | 109,640 |
| Other financing sources, net | 5,815 | (4,875) | - | 940 | - | - | 940 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (316,867) | 3,532 | 5,371 | (318,706) | (174,286) | (429,286) | 110,580 |
| Balances beginning of year | 5,661,795 | 651,009 | (30,597) | 6,343,401 | 5,922,068 | - | 6,343,401 |
| Balances end of year | \$ 5,344,928 | 654,541 | (25,226) | 6,024,695 | 5,747,782 | (429,286) | 6,453,981 |

See accompanying independent auditor's report.

City of Chariton

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$255,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works function.

Other Supplementary Information

City of Chariton

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

| | Special | | | | | |
|---|------------------------|----------------------|----------------------|-----------------|--------------------------------------|-------|
| | Revolving Loan Fund | Section 8 Housing | Employee Benefits | CDBG Housing | Urban Renewal Tax Increment | CEBA |
| Receipts: | | | | | | |
| Property tax | \$ - | - | 282,430 | - | - | - |
| Tax increment financing collections | - | - | - | - | 84,970 | - |
| Use of money and property | 3,337 | 2,241 | - | - | - | - |
| Intergovernmental | - | - | - | - | - | - |
| Special assessments | - | - | - | - | - | - |
| Miscellaneous | - | - | - | 506 | - | 2 |
| Total receipts | 3,337 | 2,241 | 282,430 | 506 | 84,970 | 2 |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public safety | - | - | 104,914 | - | - | - |
| Public works | - | - | 97,749 | - | - | - |
| Culture and recreation | - | - | 54,963 | - | - | - |
| Community and economic development | - | - | - | 103 | - | - |
| General government | - | - | 42,961 | - | - | - |
| Non-program | - | - | - | - | - | - |
| Total disbursements | - | - | 300,587 | 103 | - | - |
| Excess (deficiency) of receipts over (under) disbursements | 3,337 | 2,241 | (18,157) | 403 | 84,970 | 2 |
| Other financing sources (uses): | | | | | | |
| Operating transfers in | - | - | - | 13,193 | - | - |
| Operating transfers out | - | - | - | - | (95,425) | - |
| Total other financing sources (uses) | - | - | - | 13,193 | (95,425) | - |
| Net change in cash balances | 3,337 | 2,241 | (18,157) | 13,596 | (10,455) | 2 |
| Cash balances beginning of year | 84,862 | 74,432 | 15,133 | 19,041 | 128,435 | (917) |
| Cash balances end of year | \$ 88,199 | 76,673 | (3,024) | 32,637 | 117,980 | (915) |
| Cash Basis Fund Balances | | | | | | |
| Unreserved: | | | | | | |
| Special revenue funds | \$ 88,199 | 76,673 | (3,024) | 32,637 | 117,980 | (915) |
| Permanent fund | - | - | - | - | - | - |
| Total cash basis fund balances | \$ 88,199 | 76,673 | (3,024) | 32,637 | 117,980 | (915) |

See accompanying independent auditor's report.

Schedule 1

| Revenue | | | | Permanent | |
|----------------------|--------------------------|-----------------------|-----------|-------------------------------|-----------|
| Library Endowment | Deferred Compensation | Special Assessment | Donations | Cemetery Perpetual Care | Total |
| - | - | - | - | - | 282,430 |
| - | - | - | - | - | 84,970 |
| 421 | 59,994 | - | - | - | 65,993 |
| - | - | - | 4,365 | - | 4,365 |
| - | - | 15,771 | - | - | 15,771 |
| - | 142,310 | - | 9,915 | 4,322 | 157,055 |
| 421 | 202,304 | 15,771 | 14,280 | 4,322 | 610,584 |
| - | - | - | - | - | 104,914 |
| - | - | - | - | - | 97,749 |
| - | - | - | 4,365 | - | 59,328 |
| - | - | - | - | - | 103 |
| - | - | - | - | - | 42,961 |
| - | 290,166 | - | 3,818 | - | 293,984 |
| - | 290,166 | - | 8,183 | - | 599,039 |
| 421 | (87,862) | 15,771 | 6,097 | 4,322 | 11,545 |
| - | - | - | - | - | 13,193 |
| - | - | - | (7,223) | - | (102,648) |
| - | - | - | (7,223) | - | (89,455) |
| 421 | (87,862) | 15,771 | (1,126) | 4,322 | (77,910) |
| 106,263 | 843,283 | 99,383 | (1,941) | 181,899 | 1,549,873 |
| 106,684 | 755,421 | 115,154 | (3,067) | 186,221 | 1,471,963 |
| 106,684 | 755,421 | 115,154 | (3,067) | - | 1,285,742 |
| - | - | - | - | 186,221 | 186,221 |
| 106,684 | 755,421 | 115,154 | (3,067) | 186,221 | 1,471,963 |

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2006

| | Enterprise Funds | | |
|--|------------------|-------------|----------|
| | Airport | Solid Waste | Total |
| Operating receipts: | | | |
| Use of money and property | \$ 23,770 | - | 23,770 |
| Charges for service | 23,476 | 47,054 | 70,530 |
| Total operating receipts | 47,246 | 47,054 | 94,300 |
| Operating disbursements: | | | |
| Business type activities | 79,022 | 15,814 | 94,836 |
| Total operating disbursements | 79,022 | 15,814 | 94,836 |
| Excess (deficiency) of receipts over (under) operating disbursements | (31,776) | 31,240 | (536) |
| Non-operating receipts (disbursements): | | | |
| Intergovernmental | 14,179 | - | 14,179 |
| Interest on investments | - | 1,548 | 1,548 |
| Miscellaneous | 13,574 | 58 | 13,632 |
| Debt service | (11,196) | - | (11,196) |
| Total non-operating receipts (disbursements) | 16,557 | 1,606 | 18,163 |
| Excess (deficiency) of receipts over (under) disbursements | (15,219) | 32,846 | 17,627 |
| Operating transfers in | 20,000 | - | 20,000 |
| Net change in cash balances | 4,781 | 32,846 | 37,627 |
| Cash balances beginning of year | (140,817) | 200,367 | 59,550 |
| Cash balances end of year | \$ (136,036) | 233,213 | 97,177 |
| Cash Basis Fund Balances | | | |
| Reserved for debt service | \$ 19,598 | - | 19,598 |
| Unreserved | (155,634) | 233,213 | 77,579 |
| Total cash basis fund balances | \$ (136,036) | 233,213 | 97,177 |

See accompanying independent auditor's report.

City of Charlton

Schedule 3

Schedule of Indebtedness

Year ended June 30, 2006

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued | Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Bonds and Interest Due and Unpaid |
|--------------------------------------|-------------------|----------------|--------------------------------|---------------------------------|-----------------------|-------------------------|------------------------|------------------|--|
| General Obligation Bonds and Notes- | | | | | | | | | |
| Corporate Purpose | September 1, 1997 | 4.20-4.90% | \$ 550,000 | 255,000 | - | 80,000 | 175,000 | 12,373 | - |
| Corporate Purpose and Refunding | November 1, 1999 | 4.50-5.30% | 715,000 | 220,000 | - | 40,000 | 180,000 | 11,368 | - |
| Corporate Purpose | July 1, 2001 | 4.00-4.80% | 690,000 | 490,000 | - | 75,000 | 415,000 | 22,350 | - |
| Corporate Purpose | February 1, 2003 | 2.00-3.30% | 150,000 | 90,000 | - | 30,000 | 60,000 | 2,700 | - |
| Economic Development Note | June 1, 2004 | 4.93% | 50,000 | 45,000 | - | 5,000 | 40,000 | 2,219 | - |
| Corporate Purpose | May 1, 2005 | 2.80-3.55% | 480,000 | 480,000 | - | 90,000 | 390,000 | 16,743 | - |
| Total | | | | <u>\$ 1,580,000</u> | <u>-</u> | <u>320,000</u> | <u>1,260,000</u> | <u>67,753</u> | <u>-</u> |
| Revenue Bonds- | | | | | | | | | |
| Local Option Sales and Service Tax | December 1, 1999 | 4.70-6.00% | \$ 1,980,000 | 1,425,000 | - | 110,000 | 1,315,000 | 81,527 | - |
| FmlHA Revenue Notes- | | | | | | | | | |
| FmlHA Airport Revenue Notes (Note 4) | January 11, 1990 | 6.00% | \$ 130,000 | 43,112 | - | 8,850 | 34,262 | 2,346 | - |
| Lease Purchase Agreement- | | | | | | | | | |
| Equipment | June 15, 2002 | 4.55% | \$ 129,900 | 58,303 | - | 27,438 | 30,865 | 1,613 | - |

See accompanying independent auditors report.

City of Chariton

Schedule 4

Bond and Note Maturities

June 30, 2006

| General Obligation Bonds and Notes | | | | | | | | | | | | | | | | | | | |
|------------------------------------|------------------------------------|-------------------|--|-------------------------|-------------------|--|---------------------|-------------------|--|-------|-------------------------|--------|-------|---------------------|--------|-------|--------------------|--------|---------------------|
| Year Ending June 30, | Corporate Purpose and Refunding | | | Corporate Purpose | | | Corporate Purpose | | | Total | | | | | | | | | |
| | Issued September 1, 1997 | | | Issued November 1, 1999 | | | Issued July 1, 2001 | | | | Issued February 1, 2003 | | | Issued June 1, 2004 | | | Issued May 1, 2005 | | |
| | Interest Rates | Amount | | Interest Rates | Amount | | Interest Rates | Amount | | | Interest Rates | Amount | | Interest Rates | Amount | | Interest Rates | Amount | |
| 2007 | 4.80% | \$ 85,000 | | 5.05% | \$ 40,000 | | 4.30% | \$ 75,000 | | 2.70% | \$ 30,000 | | 4.93% | \$ 5,000 | | 2.80% | \$ 95,000 | | \$ 330,000 |
| 2008 | 4.90% | 90,000 | | 5.15% | 45,000 | | 4.50% | 80,000 | | 3.30% | 30,000 | | 4.93% | 5,000 | | 3.25% | 95,000 | | 345,000 |
| 2009 | - | - | | 5.20% | 45,000 | | 4.60% | 85,000 | | - | - | | 4.93% | 5,000 | | 3.40% | 100,000 | | 235,000 |
| 2010 | - | - | | 5.30% | 50,000 | | 4.70% | 85,000 | | - | - | | 4.93% | 5,000 | | 3.55% | 100,000 | | 240,000 |
| 2011 | - | - | | - | - | | 4.80% | 90,000 | | - | - | | 4.93% | 5,000 | | - | - | | 95,000 |
| 2012 | - | - | | - | - | | - | - | | - | - | | 4.93% | 5,000 | | - | - | | 5,000 |
| 2013 | - | - | | - | - | | - | - | | - | - | | 4.93% | 5,000 | | - | - | | 5,000 |
| 2014 | - | - | | - | - | | - | - | | - | - | | 4.93% | 5,000 | | - | - | | 5,000 |
| | | <u>\$ 175,000</u> | | | <u>\$ 180,000</u> | | | <u>\$ 415,000</u> | | | <u>\$ 60,000</u> | | | <u>\$ 40,000</u> | | | <u>\$ 390,000</u> | | <u>\$ 1,260,000</u> |

| Revenue Bonds | | | Revenue Bonds | | |
|---|-------------------|---------------------|---------------|---------------------|--|
| Local Options Sales and Services Tax | | | Revenue Bonds | | |
| Issued December 1, 1999 | | | Bonds | | |
| Year Ending June 30, | Interest Rates | Amount | Total | | |
| 2007 | 5.40% | \$ 115,000 | \$ | 115,000 | |
| 2008 | 5.50% | 125,000 | | 125,000 | |
| 2009 | 5.55% | 130,000 | | 130,000 | |
| 2010 | 5.65% | 135,000 | | 135,000 | |
| 2011 | 5.75% | 145,000 | | 145,000 | |
| 2012 | 5.80% | 155,000 | | 155,000 | |
| 2013 | 5.85% | 160,000 | | 160,000 | |
| 2014 | 5.95% | 170,000 | | 170,000 | |
| 2015 | 6.00% | 180,000 | | 180,000 | |
| | | <u>\$ 1,315,000</u> | | <u>\$ 1,315,000</u> | |

See accompanying independent auditor's report.

City of Chariton

Schedule 5

Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds

For the Last Four Years

| | 2006 | 2005 | 2004 | 2003 |
|-------------------------------------|---------------------|------------------|------------------|------------------|
| Receipts: | | | | |
| Property tax | \$ 1,245,388 | 1,248,279 | 1,281,166 | 1,282,678 |
| Tax increment financing collections | 84,970 | 70,141 | 53,680 | 47,726 |
| Other city tax | 505,068 | 427,265 | 470,216 | 457,282 |
| Licenses and permits | 14,346 | 11,410 | 8,648 | 7,814 |
| Use of money and property | 231,890 | 64,000 | 150,407 | 53,503 |
| Intergovernmental | 450,401 | 455,901 | 668,993 | 711,316 |
| Charges for service | 116,669 | 128,300 | 176,839 | 170,532 |
| Special assessments | 15,771 | 15,688 | 26,119 | 48,773 |
| Miscellaneous | 347,416 | 1,671,264 | 127,176 | 198,841 |
| Total | <u>\$ 3,011,919</u> | <u>4,092,248</u> | <u>2,963,244</u> | <u>2,978,465</u> |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$ 608,609 | 590,405 | 613,188 | 673,094 |
| Public works | 779,619 | 832,039 | 591,061 | 653,954 |
| Health and social services | 6,030 | 9,036 | 7,457 | 10,640 |
| Culture and recreation | 467,570 | 584,598 | 451,533 | 491,819 |
| Community and economic development | 17,125 | 43,249 | 208,933 | 103,967 |
| General government | 302,087 | 350,925 | 330,853 | 287,664 |
| Debt service | 581,082 | 510,916 | 498,754 | 543,079 |
| Capital projects | 278,495 | - | 21 | 8,571 |
| Non-program | 293,984 | 91,158 | 50,820 | 72,883 |
| Total | <u>\$ 3,334,601</u> | <u>3,012,326</u> | <u>2,752,620</u> | <u>2,845,671</u> |

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1051 OFFICE PARK ROAD
WEST DES MOINES, IA 50265

(515) 277-3077

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated July 28, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Chariton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Chariton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06, I-B-06, I-C-06 and I-D-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Chariton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Chariton and other parties to whom the City of Chariton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Chariton during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

July 28, 2006

City of Chariton

Schedule of Findings

Year Ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-06 Fuel Procedures - For the Airport Fuel and Central Fuel Facility, there is no reconciliation of purchases, billings, collections, inventory, and accounts receivable. Without this type of reconciliation, the City is unable to provide reasonable assurance that all fuel is accounted for properly.

Recommendation - The City implement procedures to provide reasonable assurance that all fuel is accounted for properly. One way to increase this assurance is through the use of the various reconciliations as noted above.

Response - We will review this and take action as necessary.

Conclusion - Response accepted.

- I-C-06 Accounting Records - Several instances were noted where receipts and disbursements were not properly classified on the general ledger. Because of this, it is difficult for the City to compare receipts and disbursements, by fund, between years. This condition also causes the City's financial statements to be inaccurate.

Recommendation - The City implement procedures to ensure all receipts and disbursements are properly classified on the general ledger.

Response - We will implement this recommendation.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings

Year Ended June 30, 2006

I-D-06 Receipt Analysis – The City is owed \$15,000 from a contractor, due on June 1, 2006. However, as of July 21, 2006, this amount has not been paid to the City. In September, 2005, the City overpaid a vendor \$4,000. After we brought this to the attention of the vendor, the vendor reimbursed the City \$4,000 in July, 2006. Neither of these events were known by the City until we brought this to their attention.

On January 3, 2006, the City paid \$7,600 to a contractor to demolish an old house. As of July, 2006, the City has not collected reimbursement for this cost from the owner, nor has this cost been placed as a lien against the property.

There does not appear to be procedures in place to ensure all monies due to the City are actually received by the City.

Recommendation – The City review its operating procedures to ensure all monies due to them are collected in a timely manner.

Response – We will review this area and take appropriate action.

Conclusion – Response accepted.

City of Chariton

Schedule of Findings

Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the public works function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-06 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title, and Business Connection | Transaction Description | Amount |
|--|-----------------------------------|----------|
| Brian Snuggs, Council Member Owner of Goode Heating and Cooling | Service, furnace, air conditioner | \$ 2,361 |

In accordance with Chapter 362.5(10) of the Code of Iowa, the above transactions may represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions exceed \$1,500 during the fiscal year.

Recommendation - The City should consult with legal counsel to determine the disposition of this matter.

Response - We will review this with legal counsel.

Conclusion - Response accepted.

II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Chariton

Schedule of Findings

Year Ended June 30, 2006

- II-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

An instance was noted where the Council minutes were not published as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City publish all Council minutes as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion - Response accepted.

- II-G-06 Deposits and Investments - The City library has received stock as part of a bequest. This type of investment is not normally permitted by the Code of Iowa. However, the terms of the trust agreement prohibits the City from disposing of these investments.

The City cemetery owns stock which was purchased in previous years. This is not a permissible investment in accordance with the Code of Iowa, nor with the City's investment policy.

Recommendation - The City should continue its efforts to dispose of cemetery stock and reinvest in permissible investments as soon as possible.

Response - We have continued our efforts to dispose of the stock but the market value was so low that it was in the best interest of the City not to sell at that time. We will sell it in the future if the market improves.

Conclusion - Response accepted.

- II-H-06 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.

- II-I-06 Financial Condition - The Enterprise Funds – Airport, Internal Service Fund – Central Fuel Facility, and the Special Revenue Funds – CEBA, Donations, and Employee Benefits Funds all had deficit balances at June 30, 2006. The balances in the Special Revenue Funds – Urban Renewal Tax Increment and Special Assessment Funds may be excessive.

Recommendation - The City should monitor these accounts in order to eliminate these deficits. In addition, the City should review the funds with excessive balances and implement a plan to reduce these balances.

Response - The Enterprise Funds – Airport deficit should be eventually eliminated by rents received, profit from fuel sold, and through a transfer from the General Fund. The Internal Service Fund – Central Fuel Facility deficit should be eventually eliminated from the profit received from the fuel sold. The Special Revenue Funds - CEBA deficit will be eliminated through transfers from the General Fund. The Special Revenue Funds – Donations deficit will be eliminated through donations received. The Special Revenue Funds – Employee Benefits deficit will be eliminated through decreased spending and an increase in property taxes. In addition, we will evaluate the balances in the Special Revenue Funds – Urban Renewal Tax Increment and Special Assessment Funds to determine if the cash on hand is excessive.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings

Year Ended June 30, 2006

- II-J-06 Payment of General Obligation Bonds - Certain general obligation bonds were paid from funds other than the Debt Service Fund. Chapter 384.4 of the Code of Iowa states in part "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund." Adjustments were subsequently made to the financial statements to show all general obligation bond and interest payments made from the Debt Service Fund.

Recommendation - All payments of general obligation bond principal and interest should be disbursed from the Debt Service Fund.

Response - We will implement this.

Conclusion - Response accepted.

- II-K-05 Receipts – Instances were noted where receipts were not timely deposited to the bank. The fees for building permits were not consistently charged at the proper rate. There does not appear to be procedures in place to ensure monies due the City for certain recreation programs are accounted for properly.

Recommendation – Receipts should be deposited more timely, preferably daily. Also, procedures should be implemented to ensure the correct fees are charged for building permits and that recreation program fees are accounted for properly.

Response – We will implement these recommendations to the best of our ability.

Conclusion – Response accepted.

- II-L-06 Compliance Issues – Taxable fringe benefits are not added to an employee's pay, consequently, applicable payroll taxes are not withheld. Interest income earned from the proceeds of debt, or from the accumulation of funds to pay debt, is not credited to these funds as required by the Code of Iowa. An instance was noted where the City paid sales tax on a purchase. Salary costs incurred on non-road related activities were charged to the Road Use Tax Fund.

Recommendation – All taxable fringe benefits should be added to an employees pay, with all applicable taxes withheld. Interest income earned on proceeds of debt, and the accumulation of funds used to pay debt should be credited to those funds. The City should not pay sales tax on purchases, and only charge salary costs to the Road Use Tax Fund for work associated with road related activities.

Response – We will implement these recommendations.

Conclusion – Response accepted.